Comments on the International Valuation Standards Council's IVS 2017 Proposed Revisions Exposure Draft

Oct. 16, 2018

The Japanese Institute of Certified Public Accountants

The Japanese Institute of Certified Public Accountants ("JICPA") appreciates this opportunity to comment on the IVS 2017 Proposed Revisions Exposure Draft ("Exposure Draft"). Our responses to the questions in the Exposure Draft are as follows:

1. IVS Glossary

Question 1:	Do you believe that IVS should define the terms Price, Cost, and Value? If so, please discuss why you think the additional definitions are necessary.

[Comment]

If the transaction purpose is also covered by IVS, then the difference of concepts between Value and Price needs to be clarified. From this perspective, stating only the definitions leaves intentions unclear in this regard, so the explanations given in paragraphs 6 to 9 of IVS 2013 also need to be included.

Incidentally, JICPA's "Business Valuation Guideline" includes explanations of Value and Price.

With regard to Cost definition, too, the relationship of Cost with Value and Price should be explained.

Question 2:	Do you believe IVS should define Calculation and Calculation Engagement? Please explain why.

[Comment]

We agree that it is important to clarify the difference between Calculation and Valuation as conceived by IVS and that the terms should be defined.

The definitions of Calculation and Calculation Engagement are important for the following reasons:

1) Ensure that the valuer or calculator does not confuse performing Calculation with performing Valuation;
2) Ensure that the valuer or calculator does not confuse creation of a Valuation report and creation of a Calculation report;
3) Ensure that the client does not erroneously use the Valuation report or Calculation report;

4) Ensure that there is no expectation gap with respect to the client; and
5) Prevent litigation risk related to Valuation Engagement and Calculation Engagement.

Question 3:	Should a Calculation be IVS compliant, and if so, what differences in the scope of work and disclosures outlined in IVS should be required by the valuer?

[Comment]

It should be stipulated that, if Calculation means an automatic calculation without any considerations given to preconditions, it is not IVS compliant.

If Calculation is IVS compliant, we do not think it should be defined as a Calculation but as Valuation.

In the case of Calculation and Calculation Engagement, the following points should be clearly indicated in the scope of work and disclosures sections on agreements of Calculation Engagement and Calculation reports:

1) That the purpose of the work is Calculation, not Valuation;
2) That it is not IVS compliant;
3) The procedures conducted for Calculation;
4) Information obtained for Calculation;
5) Decision on selection of Calculation approach and method;
6) Responsibility of Calculator with respect to Calculation results; and
7) Disclaimers related to Calculation Engagement.

Related to this Question, when a client hopes an inexpensive Valuation Engagement fee and short engagement hours, the valuer may be requested a “simple valuation engagement” consisting of a brief report compiled with insufficient basic documents and omitting some valuation procedures that are normally conducted. We would like such “simple valuation” work to be mentioned/described and to warn in IVS.

2. IVS 102—Investigations and Compliance

Question 4:	Should IVS provide examples of “substantial” limitations? If so, please provide examples of such limitations.

[Comment]

We agree that IVS should provide examples of limitations.

JICPA’s “Business Valuation Guideline” lists the following restrictions and limitations:

1) It is assumed that the information which the valuer is provided for the valuation engagement is true, accurate, and comprehensive.;

2) Information provided may include future forecasts with a high degree of uncertainty;
3) The valuer is a valuation specialist, but does not necessarily possess sophisticated information and knowledge related to economic events, trends in the target industry, etc. which constitute the background to the information provided; and
4) In cases in which valuation is conducted for a corporation based in a foreign country, the valuer does not necessarily have extensive knowledge of that country's laws and valuation practices.

And JICPA's "Business Valuation Guideline" notes that under above restrictions and limitations, the valuer needs to consider and analyze the information provided carefully and critically.

3. IVS 105—Valuation Approaches and Methods

Question 5:	Do you agree with the suggested changes to IVS 105 section on Discount Rates? If not, please provide details of the additional information you think should be included or excluded from this section.

[Comment]

We agree with the suggested changes.

4. IVS 200—Business and Business Interests

Question 6:	Do you agree that the methods are more relevant to business valuation and the placement in IVS 200 is appropriate? If no, please explain why.

[Comment]

We agree.

Question 7:	Are there additional methods that should be included in the proposed revisions, for example the Hybrid Method? If yes, please discuss the additional methods to consider.

[Comment]

None in particular.

Question 8:	Are there additional topics within Early Stage Company Valuation that you feel should be included in IVS or explored further by the Boards? Please provide an outline for any topics suggested.

[Comment]

Regarding Early Stage Company Valuation, special discount rates need to be added as a topic.

In the proposed change 50.32 to IVS 105 in “3. IVS 105—Valuation Approaches and Methods” of the Exposure Draft, general methods for discount rates are provided, but there is no widespread practice with any of these methods that considers an approach to special discount rates for Early Stage Company.

In particular, the Capital Asset Pricing Model (CAPM) listed in 50.32(a) generally uses beta as the indicator for the level of risk possessed by comparable public corporations, but such beta leads to low estimates of discount rates for Early Stage Company, which have higher risk than public corporations.

In this regard, there is various study literature that takes up Early Stage Company Valuation, and this literature lists useful methods, such as Certainty Equivalent Cash Flow, that use and expand upon the CAPM. Other methods such as the Venture Capital Method and the First Chicago Method are also sometimes indicated for Early Stage Company Valuation.

5. IVS 410—Development Property

Question 9:	Do you feel that the inclusion of the “As Is” and “As Proposed” value for the Development Property will reduce the risks in relation to the valuation of development property? If no, what additional information would you like to see included?

[Comment]

We think it will reduce the risks.

Question 10:	Should the valuer be compelled to state the method of valuation they have used in their calculation of market value and report the assumed (or calculated) Developers Profit when reporting market value? If no, please explain why not?

[Comment]

We think the valuer should be so compelled.